

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**April 15, 2003**

The Capital Projects and Bond Oversight Committee met on Tuesday, April 15, 2003, at 1:00 PM, in Room 129 of the Capitol Annex. Mary Lynn Collins, Committee Staff Administrator, called the meeting to order, and the secretary called the roll.

**Present were:**

Members: Senator Robert Leeper and Representative Jodie Haydon, Co-Chairs; Senators Tom Buford, Virgil Moore, and Jerry Rhoads; and Representatives Robert Damron and Jim Wayne.

Guests testifying before the committee: Bob Bender, Department of Parks; Eric Thompson, University of Kentucky, Center for Business and Economic Research; Bill Hintze, Governor's Office for Policy and Management; Armond Russ and Jack Morris, Finance and Administration Cabinet; and Terri Fugate, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Nancy Osborne, Kevin Mason, Bart Hardin, and Shawn Bowen.

Ms. Collins said today's meeting is the first meeting of the Capital Projects and Bond Oversight Committee since the enactment of SB 221, and members of this committee were recently appointed under the provisions of that bill. She welcomed two new committee members – Senator Virgil Moore and Senator Jerry Rhoads, and welcomed back those members who were reappointed.

Ms. Collins said the first order of business was the election of House and Senate committee co-chairs as provided by SB 221.

Representative Wayne nominated Representative Haydon as House co-chair of the committee. The motion was seconded by Representative Damron.

Representative Wayne made a motion that nominations cease and that Representative Haydon be elected co-chair by acclamation. The motion was seconded by Representative Damron and passed.

Senator Buford nominated Senator Bob Leeper as Senate co-chair of the committee. The motion was seconded by Senator Rhoads.

Senator Buford made a motion that nominations cease and that Senator Leeper be elected co-chair by acclamation. The motion was seconded by Senator Rhoads and passed.

Representative Haydon then took over as the presiding chair, and said he and Senator Leeper would rotate on a monthly basis responsibilities of chairing meetings. Chairman Haydon then welcomed Representative James Bruce.

Senator Buford made a motion to approve the minutes of the March 24, 2003, meeting as submitted. The motion was seconded by Representative Damron and passed by voice vote.

Representative Haydon called on Ms. Collins to review correspondence and information items included in members' folders. Ms. Collins said the first information item was a summary of provisions in SB 221 relating to this committee. The most important change in procedures for this committee will be that for most action items, other than approval of minutes and adjournment, a roll call vote will be necessary. She said SB 221 requires any action taken by the committee be by a vote of a majority of the membership rather than a majority of members present. Ms. Collins said also included in members' folders was a staff update on various capital projects, correspondence from the Auditor of Public Accounts transmitting an Audit of Lease Law Compliance for fiscal years 2000 and 2001; correspondence from the Council on Postsecondary Education reporting the Council's approval of two unbudgeted University of Kentucky projects; the semi-annual report of the Kentucky Asset/Liability Commission; and quarterly status reports for the Diddle Area Renovation project, the Administrative Office of the Courts, the Finance and Administration Cabinet, Murray State University, the University of Kentucky, and the University of Louisville.

Representative Haydon introduced Bob Bender, Deputy Commissioner for the Department of Parks, and Eric Thompson, Acting Director for the University of Kentucky Center for Business and Economic Research, to discuss a report submitted by the Department of Parks: Cost/Benefit Analysis by the Department of Parks and the University of Kentucky (UK) Center for Business and Economic Research.

Mr. Bender said the recently passed General Assembly budget included language that directed the Tourism Development Cabinet to conduct a cost/benefit analysis relating to six state park golf courses that are in varying stages of construction. The analysis was to determine whether it would be more cost-effective to maintain the unfinished golf courses at a custodial care level or to complete the projects and open them to the public. If the Secretary of the Tourism Development Cabinet determines that completion of the golf courses is the most cost-effective option, the budget language permits the issuance of bonds for that purpose not to exceed the amount supported by \$1,069,000. The six golf courses are Dale Hollow, Grayson Lake, Kincaid Lake, Mineral Mound, Pennyrile, and

Yatesville Lake. That budget language directed the Tourism Development Cabinet to engage the services of an independent consulting firm to assist with the analysis.

The budget language also requires that the results of the analysis be reported to this committee within 30 days of its completion. The study was completed on March 25 and transmitted to the Capital Projects and Bond Oversight Committee on April 1.

Mr. Bender said the study concluded that the combination of the money that has been allocated for custodial maintenance and projected revenues from the golf courses once opened should be adequate to cover the cost of the operation of each of these six golf courses, as well as to fund a debt service requirement to support bonds totaling approximately \$4.5 million, which is the amount that would be required to bring these courses to a playable level. He noted that funds available would provide for additional construction and gravel parking lots, leasing trailers to operate pro shops, leasing portable restroom facilities, and purchasing maintenance equipment for golf courses. (Approximately \$12.8 million would be needed in the future to build pro shops and restroom facilities.) Mr. Bender said on March 31, the State Property and Buildings Commission passed a resolution authorizing the sale of \$4.5 million in bonds for the six golf courses. He said the Department of Parks, in conjunction with the Finance Cabinet, is moving forward in an attempt to get these golf courses to a playable level by July 1, 2003.

Representative Wayne said the golf course analysis provided by the Department of Parks indicates that bonds with a term of 20 years will be issued to pay for construction costs and to purchase maintenance equipment that will last approximately eight years. He asked if it is appropriate to finance such items for a term longer than their useful life. Mr. Bender said even if the Department of Parks were to maintain courses on a limited custodial maintenance level, it would cost the state approximately \$1.1 million annually. He said by getting the courses to the playable level, and thereby generating revenues, the overall cost to the General Fund is approximately \$200,000 less than it would be at a custodial maintenance level. Mr. Thompson said the UK Center for Business and Economic Research, in its analysis of this project, looked at whether getting the golf courses up to a playable level would be less costly than keeping the courses closed but maintained. He said they reviewed the operating costs and revenues of other state golf courses, and concluded that the Department's estimates of the annual operating loss in the first year, plus the debt service payment, would be approximately \$150,000–\$180,000 less than the cost of maintaining the courses. He said they did not analyze the entire 20 year period, but he said at some point, all of the courses will need to open.

Representative Wayne said it is poor public policy to issue bonds over a 20 year period for equipment that will last no more than eight years. He said the golf courses should be one of the lower priorities for spending tax dollars. Mr. Bender responded that historically when the Department of Parks has been involved with a major project, the

bond proceeds have been used to purchase all items required to make the facility operational even if some of these items do not have a 20-year life span.

Representative Wayne asked if the analysis included a comparison of similar golf courses or a comparison to golf courses that are fully equipped with pro shops and other amenities. Mr. Thompson said the courses utilized in UK's analysis did have all the amenities, whereas these courses would not. However, he said their analysis accounted for this as well as location since they estimated one-third less rounds would be played at these six state courses. He said they also did some comparisons with a course in Lexington that was building its clubhouse last year to see how their attendance fell while the clubhouse was under construction.

Representative Damron asked about the estimated green fees and cart rental fees. Mr. Thompson said in his analysis, he assumed the green fee average of \$22.50 per round for the five 18-hole golf courses, and \$11 for cart rental fee for 18 holes of golf. Mr. Bender said the \$11 cart rental fee has already been set for the new courses. The green fees for Dale Hollow, Grayson Lake, and Yatesville have been established at \$25 for the weekday and \$30 for the weekend; the green fees for Pennyryle and Mineral Mound will be \$20 for the weekday and \$25 for the weekend; and fees for the Kincaid Lake Golf Course have not been established yet.

Representative Damron asked if the Department of Parks will promote heavy play on the new golf courses since the courses are new and the grass may not be fully established. Mr. Bender said they will not heavily promote the new golf courses, but as they draw closer to the actual playable dates, they will let the public know that the courses are open.

Representative Damron asked if UK's analysis took into consideration how the local economy will be impacted by the new golf courses. Mr. Thompson said they did not add any other factors into their analysis.

Representative Damron said he agreed with Representative Wayne that it is was poor public policy to bond this project to pay for golf carts and equipment on a term of 20 years when the equipment actually has a useful life of no more than four years unless those items are included with other long-term capital assets. He said the bonds should be structured based on the useful life. He said he did not want to see the state do a specific 20 year bond issue for this even though it has been done in the past since it does not seem to make good financial sense.

Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management, said he agreed that this is not the ideal way to proceed with this project. He said the ideal way would be to fully fund the golf courses that were initially authorized and provide the additional \$17.5 million that was recommended by the Governor to

complete these courses and eliminate the need for temporary facilities. However, he said the General Assembly decided not to go that route and did provide this alternative means of proceeding. He said they will have to come back to the General Assembly, potentially in the next session, and ask for money to complete these courses. Mr. Hintze said they will not sell a \$4.5 million bond issue for the Parks projects as a stand-alone issue. The project will be packaged as part of a \$125 million issue, with a host of other projects also authorized in the last session.

Senator Moore asked if the Department of Parks will receive an annual allotment for replacement of the golf carts. Mr. Bender said the Department receives a capital outlay appropriation that would be utilized to replace equipment such as golf carts.

Representative Wayne asked what will happen if the income the Department anticipates from the golf course is not generated. Mr. Bender said they anticipate the income will be there because the UK study concluded that their estimates were conservative. If the income is not there, they will attempt to reduce their expenditures, and shift priorities from within the Department to cover the loss.

Representative Wayne said he was disheartened by the process the legislature went through, as well as by the study and the administration's position. He said there are much greater priorities in the state than the opening of these golf courses. He said human priorities are being neglected because of public policy made by the legislature.

Representative Damron said the Department of Parks should set aside a reserve fund from the profits being made from the golf courses to replace old golf carts and equipment. He said this is not currently in place, and the analysis does not take that into consideration as an ongoing expense.

Senator Buford said the legislature voted to fund these golf courses. He said the Department is trying to do the best it can on this project, and he appreciated it. He said there is other added value that comes with the golf courses. He said none of the golf courses are in heavy metropolitan areas, they are located in areas of the state where we are trying to get people to visit, and there is a benefit that comes with that.

Representative Haydon said this item did not require any action by the committee. He next asked Bill Hintze and Armond Russ, Commissioner of the Department for Facilities Management, to present the monthly Finance and Administration Cabinet project report.

Mr. Hintze reported four allocations from the Emergency Repair, Maintenance, and Replacement Fund: Dale Hollow Golf Course Earth Slide Repair project – \$650,000; Department of Libraries and Archives Building Roof Repair project – \$500,000; Health Services Building Roof Replacement and Parapet Wall Repair project – \$1,200,000; and

Council of State Governments Building Exterior Façade Repair/Replacement project – \$1,000,000.

Mr. Hintze said the earth slide project at Dale Hollow is one of several, but this one must be repaired so the course can be used in the way it was intended. When the golf course was constructed, they removed trees and reshaped the soil, and when that occurred, the soil was destabilized. Mr. Russ said there were no funds left in the project account to restabilize the area.

Representative Damron said the contractor should have taken this into consideration if they were going design or move trees to make a cart path.

In response to questions from Representative Damron, Mr. Russ said all of the architects used for the six golf courses previously discussed had experience building golf courses in mountainous areas with changing soil conditions. Mr. Russ said they spent a lot of effort and money to review the problems at Dale Hollow, and concluded it was not the fault of the golf course architect or the contractor.

Representative Damron asked if there are any other problems with the golf course. Mr. Russ said there are problems on the course at holes #12 and #4. He said those problems are minor and can be corrected without additional funds. Mr. Hintze added that landslides are also a problem at the Yatesville golf course. He said the Department thinks this problem is correctable without requiring additional funding.

Representative Wayne asked how much money will be left in the Emergency Account after these allocations. Mr. Hintze said \$5 million will be left. He said if the Governor's veto had not been sustained, there would be only \$500,000 remaining.

In response to another question from Representative Wayne, Mr. Russ said he was unaware of any major needs at the present time for emergency funds. He said they had been working on several Facilities Management projects, but the Finance Secretary had decided to delay those projects since they did not need to be under construction right now. Mr. Hintze said there are agencies that are considering making requests for emergency funds, but none of those have been certified as emergencies at this time.

Representative Wayne said in terms of good public policy, most of these projects before the committee today should have been submitted to the legislature as part of the budget process. He said he hoped that when the legislature returns in 2004, that routine maintenance items such as these will be submitted through the budget process instead of through an emergency request after the budget is enacted.

Mr. Hintze said agencies try to plan for these kinds of projects by putting them in their Six-Year Capital Plan. Those plans identify priorities for regular maintenance repair

and replacement in an amount that could not be financed from operating funds. He said they then take those projects that are ranked at the top by the Finance Cabinet, independent consultants, and the agency involved, and recommend that those projects receive funding from the Capital Construction Investment Income Account. Since those funds are limited, they typically end up bonding some projects, and although it is not the most desirable way to do it, it is the only way they have found to fund these projects. Mr. Hintze said every one of the projects before the committee today have been patched from maintenance funds repeatedly. Mr. Hintze said there needs to be a more substantial continuing source of maintenance, replacement and repair funds. He said the Capital Planning Advisory Board has made some recommendations that would begin to address this issue by proposing that new projects include a funding mechanism to build up a reserve fund for major maintenance/renovations. However, he said that proposal has met with mixed success because of the competition for new dollars.

Mr. Russ said the roof replacement projects were included in each agency's Six Year Capital Plan for years as part of a major renovation for those buildings. He said when all the repairs needed on each of the buildings are added up, it is a total of \$200 million in renovation money for the next three biennia just to fix the buildings that are the responsibility of the Department of Facilities Management.

In response to a question from Senator Moore, Mr. Hintze said the 2000 Session added approximately \$1 billion in new bonded indebtedness and the 2003 Session added about \$833 million in new bonded indebtedness of which approximately \$640 million is General Fund-supported bonds.

Senator Moore asked what the state's total bonded indebtedness is. Mr. Hintze noted the conventional index, which limits total debt service payments to no more than 6% of total revenues. He said currently the state's debt capacity is at 6.25%, which would be the highest percentage amount authorized in a recent fiscal biennium.

Mr. Hintze next reported a change in funding source for a previously approved scope increase for the Kentucky Higher Education Assistance Authority (KHEAA) Office Building. Mr. Hintze said KHEAA will pay for \$282,000 for movable walls that will stay with the building and will be available for KHEAA to use when the space is later vacated. This cost was originally to be paid by state agency tenants, but KHEAA agreed to pay the cost. Chairman Haydon said no action was required for this project.

Lastly, Mr. Hintze reported two agricultural conservation easement acquisitions exceeding \$400,000 for the Purchase of Agricultural Conservation Easements (PACE) Program. Easements have been acquired from: Mr. & Mrs. Bruce Sanders in Trigg County, 566 acres at a cost of \$452,786; and from Mr. and Mrs. Samuel Houston, in Shelby County, 419 acres at a cost of \$627,839.

Representative Wayne asked how much in unobligated funds is currently available to the PACE Program. Mr. Hintze said there was several million left in the PACE Program, but he did not know exactly how much.

In response to another question from Representative Wayne, Mr. Hintze said the state does have matching funds available if it were to receive federal funding. However, he said they do not have any assurance they are going to get any federal funding.

Jack Morris, Director, Division of Real Properties, presented a lease modification of \$1,960 for the Labor Cabinet in Franklin County (PR-3575). Mr. Morris said the Labor Cabinet has installed an aluminum awning at the front entrance of its building. Approval for this modification was given prior to the Governor's recent executive order which prohibits lease improvements using state funds. Since the modification is under \$50,000, no further action was required for this lease.

Representative Haydon next called on Terri Fugate, Office of Financial Management, to discuss the agency's bond issue report. Ms. Fugate reported one new bond issue report: Kentucky State University Consolidated Educational Buildings Refunding Revenue Bonds, Series I, \$9,095,000.

Senator Buford made a motion to approve the new bond issue. The motion was seconded by Representative Damron and approved unanimously by roll call vote.

Also included in members' folders was a follow-up report for Kentucky Housing Corporation Housing Bonds, 2003 Series A, for \$35,000,000. This project was approved at an earlier committee meeting, and no action was required.

Ms. Fugate reported ten new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Bell County, Berea Independent (Madison County); Knox County; McCreary County; Perry County; Pineville Independent (Bell Co.); Providence Independent (Webster Co.); Raceland-Worthington Independent (Greenup Co.); Todd County; and Williamstown Independent (Grant Co.).

Senator Buford made a motion to approve the school bond issues. The motion was seconded by Senator Leeper and passed by roll call vote. Representative Damron abstained from the vote, citing a potential conflict of interest.

Representative Haydon said the committee will hold its next meeting on May 20.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The meeting adjourned at 2:25 p.m.